



**CITY OF LA GRANGE, MISSOURI  
YEAR ENDED APRIL 30, 2002**

**From The Office Of State Auditor  
Claire McCaskill**

**Report No. 2003-18  
February 25, 2003  
[www.auditor.state.mo.us](http://www.auditor.state.mo.us)**

**AUDIT REPORT**



Office Of The  
State Auditor Of Missouri  
Claire McCaskill

February 2003

The following problems were discovered as a result of an audit conducted by our office of the City of La Grange, Missouri.

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- The city needs to improve its accountability over gaming monies. A fund has not been formally established to account for and budget gaming monies, and a long-range plan has not established for the future use of these funds. In addition, the city did not adequately monitor the agreements with Mark Twain Casino, LLC.
- Significant weaknesses were identified in the city's budgeting, planning, and financial reporting. The city's budgets were not prepared in accordance with state law; actual expenditures exceeded budgeted amounts in the General Fund; and the monthly financial reports were not complete and/or accurate.
- The city needs to improve its banking and investment policies and procedures. In addition, the duties of cash custody and record keeping are not adequately segregated; monies received are not deposited intact or on a timely basis; and a monthly reconciliation of the bank balances to the accounting records is not performed.
- There was no evidence on how some subjects discussed allowed for a closed meeting. Also, minutes are not signed and the city does not have a formal policy regarding public access to city records.
- The city's procurement policies and procedures need to be improved. In addition, the city gave subsidies to various entities, and it is unclear if the services provided by the entities represent a governmental purpose.
- The city has made little tangible progress regarding the upgrading and/or replacement of its sewer system. In addition, water and sewer rates have not been reviewed since 1990. The city's audited financial statements show an operating loss of approximately \$54,000 in the Water and Sewer Funds for the year ended April 30, 2002.

The audit also includes recommendations related to accounting controls, council records, the police department, real estate transactions, property records, and the city charter.

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YELLOW SHEET

CITY OF LA GRANGE, MISSOURI

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## STATE AUDITOR'S REPORT



**CLAIRE C. McCASKILL**  
**Missouri State Auditor**

To the Honorable Mayor  
and  
Board of Councilmen  
City of La Grange, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of La Grange, Missouri. The city had engaged Wade Stables P.C., Certified Public Accountants (CPAs), to audit the city for the year ended April 30, 2002. To minimize any duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended April 30, 2002. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review compliance with certain legal provisions.
3. Review certain management practices.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances. In this regard, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents and interviewed various personnel of the city.

Our audit was limited to the specific matters described above and was based on selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention that would have been included in this report.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the city of La Grange, Missouri.

A handwritten signature in black ink, reading "Claire McCaskill". The signature is fluid and cursive, with the first name "Claire" and last name "McCaskill" clearly distinguishable.

Claire McCaskill  
State Auditor

August 16, 2002 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
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MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

CITY OF LA GRANGE  
MANAGEMENT ADVISORY REPORT -  
STATE AUDITOR'S FINDINGS

<b>1.</b>	<b>Gaming Revenues and Expenditures</b>
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The city needs to improve its accountability over gaming monies. A fund has not been formally established to account for and budget gaming monies, and a long-range plan has not been established for the future use of these funds. In addition, the city did not adequately monitor the agreements with Mark Twain Casino, LLC. (Mark Twain).

In May 1995, the city entered into an agreement with Mark Twain for the operation of a casino. The agreement was subsequently amended several times to extend the agreement until Mark Twain obtained a license from the state Gaming Commission and the casino opened. Certain clauses of the agreement such as the beautification and minimum rent were also amended. The casino opened in July 2001.

The CPA prepares the city's annual financial statements for the Gaming Fund and creates the actual and budget amounts for the fund from the city's accounting records. The following identifies the actual sources and uses of gaming funds from October 1995 thru April 2002, and the cash balance as of April 30, 2002:

Sources	
Gaming receipts	\$ 1,117,000
Franchise fees	450,000
Sale of land	100,000
Minimum rent	<u>30,000</u>
Total	<u><u>1,697,000</u></u>
Uses	
General operations (including police and fire)	584,000
Construction of fire and maintenance buildings	193,000
Donation to La Grange Revitalization Organization	50,000
Payment to Lewis County	25,000
Payment for a new city hall building	25,000
Transfer to Water Fund	25,000
Transfer to Sewer Fund	<u>15,000</u>
Total	<u><u>917,000</u></u>
Balance	
Certificates of Deposit	450,000
Money market account	187,000
Non-interest checking account	<u>143,000</u>
Total	\$ <u><u>780,000</u></u>



Gaming receipts are generated from a 2% tax on gross revenues of the casino plus \$1 per person admission fee. Mark Twain pays these monies to the Department of Revenue, who in turn transmits the receipts to the city.

Franchise fees represent direct payments from Mark Twain to the city for the gaming facility. In addition, \$50,000 of the \$450,000 received was a direct payment by Mark Twain to the La Grange Revitalization Organization (LRO) on behalf of the city. According to the agreement, the city will receive additional franchise fees, totaling \$550,000 by 2006.

Numerous tracts of land were sold to Mark Twain during 1999 and 2000.

Minimum rent represents annual payments, of \$10,000 each, from Mark Twain paid before the casino opened and when the franchise fee was not paid.

Our concerns regarding the gaming monies include:

- A. The city has not formally established a fund to account for and budget gaming monies. As a result, gaming revenues and related expenditures are not accounted for in a consistent manner and expenditures of gaming monies cannot be readily identified. Generally, gaming receipts are recorded in the General Fund as a miscellaneous item and/or as a separate revenue source, while franchise fees are recorded in the city's books in either the advancement account or in the General Fund. In addition, gaming monies invested in certificates of deposit are recorded in the investment account. Although the advancement and investment accounts are recorded in the city's accounting ledger, neither account balance is recorded in a fund.

To improve internal control over gaming monies, the city should formally establish a fund to account for all gaming receipts and disbursements. In addition, the city should prepare an annual budget for the fund. A well planned budget can serve as a useful management tool by establishing specific costs and revenue expectations for city operations and provides a means to effectively monitor actual costs and revenues.

- B. The city has not developed a formal written long-range plan for the use of its gaming monies. As noted above, the city has almost \$800,000 cash on-hand and will receive additional franchise fees totaling \$550,000 by 2006. In addition, monthly gaming receipts averaged approximately \$124,000 during fiscal year 2002. The city needs to ensure such substantial revenues are used cost-effectively.

Adequate long-range planning will help ensure critical needs of the city are identified, priorities are established, and the best use of the gaming funds. After a long-range plan is developed, it should be reviewed annually and modified as

necessary to meet the changing needs of the city. Critical needs identified by long-range planning should be identified clearly in the city budgets.

C. It appears the city did not adequately monitor the agreements with Mark Twain. The original agreement was amended many times since the original agreement was signed in May 1995. We noted the following:

- The city's minutes did not include sufficient documentation that the amendments were properly discussed and/or approved by the city council. It is imperative that all significant business conducted by the city council be documented in the minutes.
- City personnel were not always aware of the terms and conditions of the amendments, and could not readily identify if and/or when monies were due to the city. For example, the city was to receive five annual payments of \$50,000 under the beautification clause; however, this money was not received. Upon further review, we noted that the November 2000 amendment revised this clause to these payments being contingent upon the amount of gaming monies received annually by the city. Apparently, this change was not recognized by city personnel until our review of the amendments. Failure to monitor the contracts terms and conditions could result in lost revenues.
- The city's file for the agreements/amendments was not complete. We noted the November 2000 amendment was not included in the file; however, the city subsequently received a copy of the amendment from Mark Twain's attorney. In addition, another amendment was not signed by all parties and many of the amendments were copies instead of the original. A complete and accurate contract file is necessary to help ensure that all terms and conditions of agreements are adequately monitored.

**WE RECOMMEND** the City Council:

- A. Formally establish a fund for gaming monies. In addition, an annual budget should be prepared for the fund.
- B. Develop a long-term plan for the use of gaming monies. The plan should be reviewed annually and modified as necessary to meet the changing needs of the city.
- C. Ensure the terms and conditions of the agreements with Mark Twain are adequately monitored. The amendments should be reviewed and approved by the city council and the original signed copies should be retained.

## **AUDITEE'S RESPONSE**

- A. *We agree with the recommendation. A plan has been implemented.*
- B. *We agree with the recommendation. A plan has been implemented and will be addressed more fully in the next budget year.*
- C. *We agree with the recommendation. The Mayor is currently working with the city and casino attorneys to compile one contract with all amendments included and to present the final document to the Council for approval.*

<b>2. Budgeting, Planning, and Financial Reporting</b>
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Significant weaknesses were identified in the city's budgeting, planning, and financial reporting. The city's budgets were not prepared in accordance with state law; actual disbursements exceeded budgeted amounts in the General Fund; and the monthly financial reports were not complete and/or accurate. In addition, the city's financial statements were not published for the year ended April 30, 2002, and an annual maintenance plan for city streets has not been prepared since fiscal year 1999. Finally, the city's computer software package does not appear to meet the city's needs.

- A. Budgets are not prepared in accordance with state law. The budgets for fiscal years 2002 and 2001 did not include a budget message, actual (or estimated for the years not yet ended) receipts and disbursements for the two preceding budget years, or the beginning and estimated ending available resources. The budgets showed only the budgeted receipts and disbursements for the preceding two years. Other significant budget deficiencies include:
- The city did not budget for the construction of a fire station and maintenance shed. The cost of these two facilities totaled approximately \$193,000.
  - The disbursements from gaming funds were not identified with an amount; but, listed "as needed".
  - Improvements to the new city hall building including office furniture and equipment, estimated to cost between \$40,000 and \$60,000, were misclassified as office supplies.
  - The Law Enforcement Training fees were not accounted for separately as required by Section 590.140, RSMo 2000.
  - Monies in a fund moved from and/or to investments (savings and money market accounts and certificates of deposit) were misclassified as transfers in/out.

The failure to accurately budget all disbursements contributed to the overspending in the General Fund as noted below. In addition, misclassification results in receipts and disbursements not being properly identified. Also, Section 67.010, RSMo 2000, requires the preparation of an annual budget which should present a complete financial plan for the ensuing budget year and sets specific guidelines for the format of the annual operating budget.

A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific cost expectations for each area. A budget can also provide a means to effectively monitor actual costs by periodically comparing budgeted amounts to actual disbursements. A complete budget should include separate receipt and disbursement estimations, and include the beginning available resources and a reasonable estimate of ending available resources. The budget should also include a budget summary and comparisons of actual receipts and disbursements for the two preceding years.

- B. Actual disbursements exceeded budgeted amounts in the General Fund by approximately \$70,000 and \$2,500 for the years ended April 30, 2002 and 2001, respectively. Section 67.040, RSMo 2000, requires political subdivisions to keep disbursements within amounts budgeted. If there are valid reasons which necessitate excess disbursements, a resolution should be adopted by the governing body setting forth the amounts of the budget increase and the facts and reasons for such.
- C. The monthly financial report presented to the council is not complete and is not always accurate.
- A budget to actual statement for each fund is not prepared. In addition, transfers between funds are not identified, but are included in receipts and disbursements. Also, investments are reported separately and are not included in the fund balance.
  - Reported receipts, disbursements, and cash balances do not always agree to the accounting records. This occurs because the monthly financial report is manually prepared from the computerized accounting ledger and the report and ledger is not reconciled. In addition, some of the reports contained addition and subtraction errors.

A complete and accurate financial report is necessary to make informed decisions and provides a basis for monitoring financial activity.

- D. The city's financial statements were not published for the year ended April 30, 2002. Section 34 of the city's Charter requires that "a full and complete statement of all monies received and expended" be published each year. The city should publish the financial statements required by its charter.

- E. An annual maintenance plan for city streets has not been prepared since fiscal year 1999. A formal maintenance plan should be prepared in conjunction with the annual fiscal budget and include a description of the roads to be worked on, the type of work to be performed, an estimate of the quantity and cost of materials to be needed, and other relevant information. The plan should be included in the budget message and be approved by the council. In addition, a public hearing should be held to obtain input from city residents.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair, maintenance, and construction of streets throughout the year.

- F. The city's computer software package does not provide adequate information for management purposes and is cumbersome. We noted the following concerns:

- The computer system operates on a calendar year; whereas, the city's year-end is April 30. Thus, at calendar year-end all information must be reentered to account for the last four months of the city's year. This results in additional time and effort by city personnel and increases the likelihood of data entry errors.
- The system cannot provide any historical data or comparative type reports.
- The system cannot be queried for information, such as vendor reports and monthly transaction reports by fund or line item.

A good computer system provides the necessary framework for an effective reporting system for management purposes and helps facilitate the budgeting process.

**WE RECOMMEND** the City Council:

- A. Prepare budgets that contain all information as required by state law and ensure budgets are complete and accurate.
- B. Refrain from authorizing disbursements in excess of budgeted amounts. If valid reasons necessitate excess disbursements, the original budget should be formally amended.
- C. Ensure financial reports are complete, accurate, and provide sufficient information to monitor financial activity.
- D. Ensure the city's financial statements are published in accordance with the city charter.

- E. Prepare an annual road maintenance plan as a part of the budget.
- F. Consider obtaining software which can provide historical and comparative information and which supports the city's fiscal year-end.

### **AUDITEE'S RESPONSE**

- A. *We agree with the recommendation. A plan is currently being implemented to establish budget to actual reporting.*
- B. *We agree with the recommendation. A plan is implemented with the City Administrator and Finance Chairman reviewing budget reports monthly.*
- C. *We agree with the recommendation. This has been implemented.*
- D. *We agree with the recommendation. This will be implemented.*
- E. *We agree with the recommendation. The City Administrator has implemented.*
- F. *We agree with the recommendation. The City was already seeking bids for new software and computers.*

<b>3. Accounting Controls, Policies, and Procedures</b>
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The city needs to improve its banking and investment policies and procedures. In addition, the duties of cash custody and record keeping are not adequately segregated; monies received are not deposited intact or on a timely basis; a monthly reconciliation of the bank balances to the accounting records is not performed; and invoices/supporting documentation are not always adequately reviewed before checks are signed. Also, the petty cash fund is not operated on an imprest basis.

- A. Banking services are not bid and a written agreement with the city's depository bank is not prepared. In addition, the number of banking accounts appears excessive, and a written policy to document procedures for investing excess funds has not been adopted. Also, an investment ledger is not maintained.
  - 1. The city has not solicited bids for its banking services nor entered into a written agreement with its depository bank. The city has maintained its checking, saving, and money market accounts with the same bank for a number of years and recently started purchasing certificate of deposits (CD) from another bank. To ensure the quality of banking services and ensure interest earnings received are maximized, the city should procure its banking services through a competitive bid process. In addition, the city should enter into a written agreement with its depository bank.

All such agreements should require that deposits in excess of Federal Depository Insurance Corporation (FDIC) limits be secured by bank assets pledged to the city. In addition, the bank service agreements provisions should include, but not be limited to, any bank fees for check printing, checking account services, and interest rate for invested funds. A written depository agreement helps the city and bank understand and comply with the requirements of any banking arrangement.

2. The number of bank accounts appear excessive. In addition, the city maintains substantial funds in the non-interest bearing general account.

As of April 30, 2002, the city's cash balance of approximately \$1 million was in two saving accounts, four non-interest bearing checking accounts, seven money market accounts, and ten CDs. The non-interest bearing general account balance was over \$245,000 and has had an average daily balance in excess of \$150,000 since September 2001. Using the average rate of return on the city's money market accounts of approximately 1.5 percent, it appears the city could have earned an additional \$1,500 in interest for the period September 2001 to April 30, 2002.

It appears the bank accounts could be consolidated to help simplify the city's records and reduce the number of accounts that must be monitored and controlled. In addition, the failure to have funds in interest-bearing accounts results in the loss of revenues. To maximize interest earnings, all funds should be placed in interest-bearing accounts.

3. The city has not adopted a written policy to document its procedures for investing excess funds. Excess funds are invested in saving accounts, money markets and CDs. The balance of these accounts totaled over \$700,000 as of April 30, 2002.

Monies should be maintained in the highest yielding investment legally possible, while still considering the liquidity needs of the city and security of the funds. The city should establish policies and procedures for the appropriate type of investments that meets its needs.

4. The city does not have an adequate investment ledger to monitor CD investments and money market and savings accounts. Only the interest earned, receipts, and disbursements are recorded for each investment. An investment ledger should include certificate and/or account number, interest rate, date of purchase and maturity, as applicable, interest earned amounts, institution with whom the investment is made, and the fund to which the investment applies.

Complete, organized investment records are necessary to provide accurate and timely financial information upon which effective management

decisions may be based. Furthermore, without such records, accountability over the city's assets and related revenues is weakened.

- B. The duties of cash custody and record keeping are not adequately segregated. The City Clerk also serves as the City Collector, City Treasurer, and Court Clerk. Her duties include receiving and depositing monies, preparing and co-signing checks, posting receipts and disbursements to the ledger and preparing monthly financial reports. The Deputy City Clerk is primarily responsible for preparing deposits and bank reconciliations for all accounts, except the court, and posting utility receipts. She can also co-sign checks. In addition, both the City Clerk and Deputy City Clerk prepare invoices for payment.

Neither the city council nor other personnel independent of the cash custody and record keeping functions provide adequate supervision or review of the work performed by the City Clerk and/or Deputy City Clerk. Segregation of duties is necessary for proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating duties to the extent possible. If proper segregation of duties is not feasible, timely supervisory or independent review of work performed and investigation into unusual items and variances is necessary. In addition, the City Clerk and Deputy City Clerk should not be allowed to co-sign checks.

- C. No documentation is available to support the method of allocation of wage expenses to the city's funds. In addition, fringe benefits (health insurance and retirement) and the employer's share of payroll taxes are paid from the General Fund.
1. Each of the city's employees are paid from one or more of the city's funds (water, sewer, street, and/or general); however, no documentation is maintained to identify the number of hours worked by these employees related to the specific fund(s). According to city personnel, employees are placed on the payroll of a designated fund(s) based on the work activities it is believed the employee will be involved in. The proper allocation of expense is necessary to ensure costs are paid from the fund(s) that receive the benefit.
  2. Although payroll checks are charged to designated fund(s), the employer's share of payroll taxes and fringe benefits are paid from the General Fund. Apparently, the funds for streets, water, and sewer do not have sufficient monies for operations and are being subsidized by the General Fund. As a result, there is no clear picture of the actual operating costs of these funds.



The funds of the city are established as separate accounting entities to account for specific activities of the city. Reflecting expenses in the proper fund is necessary to accurately determine the results of operations and/or specific activities; thus, enabling the city to establish the level of taxation and/or user charges necessary to meet operating costs.

D. Monies received are not deposited intact or on a timely basis and are not always recorded timely. We noted the following problems:

1. Receipts are not deposited intact and cannot be readily reconciled to the daily receipt listing. The city maintains a bank account for water and sewer fees and another account for solid waste fees. However, since customers generally pay these fees with one check, the daily receipts are split between the two bank accounts by depositing coin and currency in one account and checks in the other account.
2. Receipts are not deposited on a timely basis. A cash count on June 20, 2002, disclosed cash and checks on hand totaling \$1,915, which represented four days of receipts. Additionally, the city made only seven deposits in June 2002.
3. Receipts are not always recorded timely. It appears this occurs when the clerks are busy and fail to record the receipt(s) when received. Thus, monies are sometimes held and not deposited until identified. Recording receipts when received and reconciling receipts to deposits would help ensure monies are accounted for properly.
4. The city allows employees and the public to cash personal checks out of the daily receipts. This practice reduces the accountability for monies received.

To adequately safeguard receipts and reduce the risk of loss, theft or misuse of funds, all deposits should be made intact daily or when accumulated receipts exceed \$100, and all receipts should be recorded when received. The recorded receipts should be reconciled to the composition of deposits. In addition, personal checks should not be cashed from daily receipts.

E. A monthly reconciliation of all bank balances to the accounting records is not performed. According to the City Clerk, only the general account check register is reconciled to the bank statement, and this reconciliation does not include agreeing the bank balance to the accounting records. In addition, the reconciliation is not retained.

All bank accounts, including investment accounts, should be reconciled to the accounting records. A proper reconciliation helps ensure receipts and

disbursements are properly handled and recorded, and that bank and book errors will be detected and corrected in a timely manner.

- F. Invoices and/or supporting documentation are not always adequately reviewed before checks are signed. While the city clerk may review invoices and/or supporting documentation, the city council generally does not review invoices and/or supporting documentation before approving the payments.

A review of the invoice and/or supporting documentation should be performed to substantiate the validity, propriety, and reasonableness of the disbursements before the checks are signed.

- G. The petty cash fund is not operated on a imprest basis because miscellaneous revenues, such as copy fees, are placed into the fund; therefore, a specific balance is not maintained. Employee travel and meal expenses are sometimes reimbursed from petty cash; thus, these expenses are not approved by the city council. Finally, the fund is not reviewed by a person independent of the accounting process.

The petty cash fund should be operated on an imprest basis, meaning that cash and the invoices should always total the established balance, and checks issued to replenish the fund should equal the amount of invoices. In addition, miscellaneous receipts should not be placed in the petty cash fund and the reimbursement of employee expenses should not be made from the fund. Periodically, the funds should be counted and reconciled to the imprest balance by an independent person to ensure the funds are being accounted for properly, to detect errors, and to prevent these monies from being misused.

**WE RECOMMEND** the City Council:

- A.1. Seek competitive bids for its banking services on a periodic basis, and enter into a written agreement with the depository bank.
- 2. Consider consolidating the city's bank accounts and maintain all funds to the extent possible in interest-bearing accounts.
- 3. Adopt a written investment policy for excess funds.
- 4. Maintain a complete investment ledger.
- B. Provide for an adequate segregation of duties to the greatest extent possible, and require the city administrator to perform independent reviews of the accounting records. In addition, the city administrator and a member of the city council should co-sign checks.

- C. Develop and implement a reasonable method for allocating payroll and fringe benefits between the city's funds. In addition, payroll taxes and fringe benefits should be paid from the applicable fund(s).
- D. Require all receipts be deposited intact daily or when accumulated receipts exceed \$100. All receipts should be recorded on the receipt listing when received and deposits reconciled to the receipt listing. In addition, the practice of cashing personal checks from daily receipts should be discontinued.
- E. Require all bank accounts be reconciled to the accounting records on a monthly basis. In addition, the documentation of the reconciliation should be retained.
- F. Ensure invoices and/or supporting documentation are reviewed/approved before checks are signed.
- G. Establish an imprest amount for the petty cash fund and ensure the fund is periodically counted and reconciled to the imprest balance by an independent person.

#### **AUDITEE'S RESPONSE**

- A.1. *We disagree with the recommendation. LaGrange is a very small city with only one financial institution located within our city limits. We believe going outside our city limits for daily banking purposes would not be cost effective. The City has implemented moving some investments six miles away. We would like to support our home town bank.*
- 2. *We agree with the recommendation. This has been implemented.*
- 3. *We agree with the recommendation. This is to be pursued further by the City Administrator and Finance Committee.*
- 4. *We agree with the recommendation. This has been implemented.*
- B&C. *We agree with the recommendation. Steps have already been taken to implement.*
- D-G. *We agree with the recommendation. This has been implemented.*

<b>4.</b>	<b>Council Meetings and Records</b>
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There was no evidence on how some subjects discussed allowed for a closed meeting. In addition, minutes are not signed and do not always adequately document all business conducted. Also, the city does not have a formal policy regarding public access to city records.

- A. The city showed no evidence on how the following subjects would allow for a closed meeting: discussions on budget revisions, monthly financial reports, investments, and bids received. Usually, the city indicated that the discussion of personnel issues was the justification for closed meetings.

Section 610.021, RSMo 2000, allows the council to close meetings to the extent the meetings relate to certain specified subjects including litigation, real estate transactions, bid specifications and sealed bids, personnel matters and confidential or privileged communications with auditors. In addition, public governmental bodies should not discuss any other business during the closed meeting that differs from the specific reasons used to justify such meeting, record, or vote.

The council should close meetings only for the specific topics allowed by state law and ensure the discussion is restricted to the specified topic(s).

- B. Council minutes prepared by the City Clerk and approved by the council are not signed. The minutes should be signed by the City Clerk as preparer and by the Mayor to provide attestation that the minutes are a correct record of the matters discussed and actions taken during the city council meetings.
- C. Minutes do not adequately document all business conducted during the council meetings. For example, the minutes do not generally include all bids received, the reason for sole source procurements, or the basis for awarding bids to other than the lowest bidder. Also, the minutes did not include sufficient detail regarding the discussions surrounding the purchase of a new city hall building.

Minutes serve as the only official permanent record of decisions made by the council. Therefore, it is necessary that the minutes be prepared to clearly document all business conducted.

- D. The city does not have a formal policy regarding public access to city records. A formal policy would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact, provide an address to mail such requests, and establish a cost for providing copies of public records.

Section 610.023, RSMo 2000, lists requirements for making city records available to the public. Section 610.026, RSMo 2000, allows the city to charge fees for copying public records, not to exceed the city's actual cost of document search and duplication.

**WE RECOMMEND** the City Council:

- A. Ensure that only items allowed by state law are discussed in closed meetings. In addition, ensure minutes state the specific reasons for going into a closed meeting and that only the items specified are discussed in the closed meeting.

- B. Require the City Clerk and Mayor to sign the council minutes to attest to their accuracy and completeness.
- C. Ensure minutes clearly document all business conducted.
- D. Develop written policies regarding procedures to obtain public access to, or copies of, public city records.

### **AUDITEE'S RESPONSE**

- A. *We agree with the recommendation. This is to be implemented in future meetings and new sunshine law books have been provided to the full Council.*
- B&C. *We agree with the recommendation. Implemented.*
- D. *We agree with the recommendation. Steps are currently being taken by the City Administrator to ensure a written policy is completed and approved by Council resolution.*

<b>5.</b>	<b>Expenditures</b>
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The city's procurement policies and procedures need to be improved. In addition, the city gave subsidies to various entities, and it is unclear if the services provided by the entities represent a governmental purpose. Also, some expenditures did not appear to be a necessary and prudent use of public funds.

- A. The city did not always solicit bids in accordance with its purchasing policy. The purchasing policy requires bids to be solicited for all purchases over \$1,500 (except in the case of an emergency). Although the city did solicit bids for some purchases, bids were either not solicited or bid documentation was not retained for the following:

Item	Amount
Motor grader	\$ 35,600
Thermo imaging camera	14,665
Police radio base station	9,735
Street oil	4,671
Asphalt	3,238
Police car radios	1,725

The city amended its purchasing policy in August 2002 to require bids on all purchases in excess of \$5,000.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair

value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in the city's business. Complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

- B. The city's procurement and expenditure approval policies and procedures need to be improved. There are no guidelines for the purchase and/or approval for goods and services less than \$5,000. For examples, the city has not identified which city personnel are authorized to make/approve purchases or whether a specific number of quotes should be obtained.

Adopting a procurement policy for purchases less than \$5,000 would improve purchasing efficiency, establish controls over small purchases, and identify the level of approval needed.

- C. Various concerns were noted regarding the procurement and contracting of professional services.

- 1. The city did not solicit proposals for its engineering services. The city paid one firm approximately \$12,000 for engineering services for the two years ended April 30, 2002.

The city should solicit proposals for engineering services. Sections 8.289 and 8.291, RSMo 2000, provide that when obtaining engineering services, at least three highly qualified firms should be considered. These firms should be evaluated based upon specified criteria and qualifications for the type of service required as well as the fees being charged.

- 2. According to city officials, the city has not solicited proposals for various professional services such as audit, legal, and insurance for many years. In addition, a written agreement is not prepared for legal services.

The annual cost of property and liability insurance, legal services and auditing services was approximately \$19,000, \$13,000, and \$2,700, respectively, for the year ended April 30, 2002.

Soliciting proposals for professional services helps provide a range of possible choices and allows the city to make a better-informed decision to ensure necessary services are obtained from the best qualified vendor at the lowest and best cost. In addition, written agreements should be obtained for professional services.

- D. The city gave subsidies to various not-for-profit organizations and Lewis County; however, the specific services to be provided were generally not defined through a written agreement. In addition, it is unclear if some of the services represent a governmental purpose.

1. A clause in the September 2000 amended agreement between the city and Mark Twain allowed Mark Twain to donate \$50,000 to the LRO on the city's behalf for city beautification purposes. The city received no documentation from the LRO regarding how these monies were spent.
2. In October 2001, the city entered into a written agreement to pay \$15,000 to a non-for-profit youth center. The youth center was to provide various educational programs and other activities to the youths of the city. However, the agreement did not quantify the service to be provided for the subsidy paid. In addition, as of August 2002, the city has not requested a report detailing the use of the monies.
3. In January 2002, the city gave Lewis County \$25,000 and a 1995 Crown Victoria valued at \$4,000 because the county requested funding for increased law enforcement efforts resulting from the casino operations. Although the city has requested the county to furnish a quarterly report regarding how these funds were used; the city has not received a report from Lewis County, as of August 2002.
4. The city also donated \$1,200 and \$400 in fiscal year 2002 and 2001, respectively, to various organizations such as the La Grange Lion's Club, La Grange Chamber of Commerce, a youth center, and a basketball tournament.

The Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose being provided by these entities, these uses could be considered to be a violation of the constitution. Written agreements are necessary to quantify the services to be performed and the compensation to be paid for the services, provide a means for the city to monitor compliance with the contract terms, and protect the city in the event of a dispute over the terms of the agreement. In addition, Section 432.070, RSMo 2000, requires all contracts to be in writing.

- E. The city routinely purchases turkeys and hams for city employees and volunteer firemen at Christmas. Also, until 2001, council members received turkeys and hams. For the year ended April 30, 2002, the city spent approximately \$600 for these items.

These disbursements do not appear to be a necessary and prudent use of public funds.

**WE RECOMMEND:** the City Council:

- A. Ensure bids are solicited for purchases in accordance with the city's purchasing policy. In addition, complete bid documentation should be retained.
- B. Establish formal procurement and expenditure approval procedures for purchases less than \$5,000.
- C. Ensure proposals are solicited for professional services, including engineering services. The best proposal should be selected based upon cost, experience, type of service to be provided, and any other relevant information. In addition, a written agreement should be prepared.
- D. Ensure subsidies to other entities provide a governmental benefit to the city and do not violate state law or the state constitution. Written agreements should be prepared which specifically address the services to be provided and compensation to be paid. In addition, procedures should be developed to adequately monitor the terms of the agreement.
- E. Ensure expenditures are limited to those necessary to operate the city. The City Council should refrain from expending city monies in a manner that primarily benefits individuals.

**AUDITEE'S RESPONSE**

*A-D. We agree with the recommendation. Implemented.*

*E. We agree with the recommendation. This will be implemented.*

<b>6. Police Department</b>
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The city should periodically evaluate the operations and related costs of the police department. In addition, adequate records are not maintained for traffic tickets and seized property.

- A. The city has not reevaluated the number of officers and related expenses since the casino opened. During the two years ended April 30, 2002, the city increased the number of officers (to nine from three) and their related expenses because of anticipated law enforcement needs due to the Mark Twain Casino opening in July 2001. According to city officials, the state Gaming Commission verbally indicated that approximately ten officers would be needed when the casino opened. The cost of operating the police department was approximately \$297,000, \$189,000, and \$117,000 in fiscal years 2002, 2001, and 2000 respectively.



The city should develop performance goals and measures for its police department. Performance goals/measures help assess accountability, and they are a useful management tool for analyzing future personnel needs and the associated costs. In addition, a periodic evaluation of the operations and related costs of the police department would help ensure the city receives adequate law enforcement, while ensuring resources are allocated to provide the greatest benefit to the city.

- B. The police department does not maintain a log to account for the tickets assigned to and issued by police officers. Without a proper accounting of the assignment and issuance of tickets and the ultimate disposition of tickets, the police department and the municipal court cannot be assured that all tickets are properly handled and submitted to the court for processing.
- C. The police department's log of seized property is not adequate. Seized property items are not always tagged to identify the property to a specific case and the inventory listing does not appear to be complete. Some items located in the evidence room were not included on the inventory listing and the disposition of items was not always documented.

Adequate seized property records are necessary to deter and identify loss, misuse, or theft of such items. An inventory record should include information such as date of seizure, description, persons involved, current location of the property, case name and number, and date and method of release or disposition of the property. In addition, periodic physical inventories should be performed and the results compared to the inventory records to ensure that seized property is accounted for properly.

**WE RECOMMEND** the City Council:

- A. Reevaluate the operations and related costs of the police department on a periodic basis and ensure staffing levels are appropriate.
- B. Require the police department to maintain adequate records to account for the assignment, issuance and ultimate disposition of all tickets assigned to the police officers.
- C. Require the police department to maintain a complete inventory record of all seized property including information such as a description, persons involved, current location, case number, and disposition of such property. In addition, perform periodic inventories of seized property.

**AUDITEE'S RESPONSE**

*A-C. We agree with the recommendation. Implemented.*

**7.****Real Estate Transactions**

The city purchased and sold several parcels of real estate without obtaining formal written appraisals. However, city officials indicated that the city generally reviewed several properties before purchasing real estate. Our review noted the following transactions:

- The city purchased a building from the LRO, in April 2002 for \$143,000, to serve as a new city hall.
- The city purchased approximately three acres for \$25,000 in April 1999 to build a maintenance shed and fire station.
- The city sold several parcels of land to the Mark Twain for \$100,000 in 1999 and 2000.

Good business practices require that major real estate transactions be formally and independently appraised to ensure fair value is given or received for properties. In addition, a formal review or cost study should be performed and documented at the time of purchase to support the city's decision making process.

**WE RECOMMEND** the City Council obtain independent written appraisals on all real estate transactions. In addition, the city should ensure a formal review or cost study is prepared and documented for all significant purchases.

**AUDITEE'S RESPONSE**

*We agree with the recommendation.*

**8.****Water and Sewer System**

The city has made little tangible progress regarding the upgrading and/or replacement of its sewer system. In addition, water and sewer rates have not been reviewed since 1990. The city's audited financial statements show an operating loss of approximately \$54,000 in the Water and Sewer Funds for the year ended April 30, 2002.

- A. The city has spent a considerable amount of time and money discussing and studying the problems of its sewer system; however, little tangible progress toward a solution has been made. For several years, the Missouri Department of Natural Resources (DNR) has identified problems with the city's sewage treatment plant and that agency has concluded the treatment plant needs to be upgraded or replaced. The city has paid approximately \$7,000 for two engineering studies regarding the sewer system in recent years.

In September and December 2001, the DNR conducted an inspection of the treatment plant and reported effluent violations (the level of contaminants in the water discharged from the system). The inspections reported the plant was over 30 years old and may be nearing the end of its useful life and there were some indications that the plant may have reached its treatment capacity. In addition, DNR officials indicated the city may have to meet even more stringent wastewater limits than are currently required.

According to DNR personnel, the city needs to make a decision soon. Once a decision is made, it could take several years to go through the DNR's review process and to build and get a new system operational. The DNR has suggested tentative timeframes for the city to submit preplans and a construction plan. The city needs to continue to work with the DNR regarding the upgrading and/or replacement of the sewer system.

- B. The city has not performed a formal review of the adequacy of the water and sewer rates since 1990. The city's audited financial statements show an operating loss of approximately \$54,000 and \$31,000 in the Water and Sewer Funds for the years ended April 30, 2002 and 2001, respectively.

Water and sewer fees are user charges which should cover the costs of providing the related service and maintaining the system, but the rates should not be set at a level which results in excessive fund balances. The city should perform a detailed review of its water and sewer costs, including depreciation, and establish rates to cover the total costs of operations.

**WE RECOMMEND** the City Council:

- A. Continue to work with the DNR regarding the upgrading and/or replacement of the sewer system.
- B. Review water and sewer rates periodically to ensure sufficient revenues are generated to adequately maintain the systems.

**AUDITEE'S RESPONSE**

- A. *We agree with the recommendation. Steps are being taken to continue working with DNR.*
- B. *We disagree with the recommendation. The Council does not want to increase cost to the citizens. Plans are being implemented to subsidize both the water and sewer with revenues received from the gaming facility.*

The city does not maintain complete records to account for all property owned by the city. In addition, two laptop computers are missing. Also, mileage logs are not maintained for city vehicles.

- A. Although the city maintains a list of property for insurance purposes, the list is not complete. In addition, the property is not tagged for specific identification; an annual physical inventory of the property is not performed; and property acquisitions are not accounted for as they occur.

Property records should be maintained on a perpetual basis, accounting for property acquisitions and dispositions as they occur. The records should include a detailed description of the asset including name, make and model number, asset identification number, cost, acquisition date, the physical location of the asset, and the date and method of disposition of the asset when disposed of. In addition, the city should conduct annual physical inventories, and property purchases should be reconciled to property additions on a periodic basis.

Inventories are necessary to ensure the property records are accurate, identify any unrecorded additions and deletions, detect theft of assets, and identify obsolete items. Asset identification numbers allow for identification of the property in the records and limit the potential for personal use of city assets.

Adequate property records are necessary to secure better internal controls and safeguard city assets which are susceptible to loss, theft, or misuse, and provide a basis for determining proper insurance coverage required on city property.

- B. Two laptop computers purchased in May 2001 by the police department from the State Agency for Surplus Property (SASP) could not be located. According to city officials, these computers were taken by former police officers for their personal use. Items purchased from SASP should be used for city purposes and not converted to personal use.
- C. Control over the usage of vehicles is not adequate. The city owns over 10 vehicles, but does not maintain mileage/usage logs for any of these vehicles. Mileage and/or usage logs are necessary to document the appropriate use of the vehicles and are useful in evaluating fuel costs.

The logs should document beginning and ending odometer readings, destination, and purpose of each trip. These logs should be reviewed by city management to help ensure vehicles are used for city business, are being properly utilized, and help identify any vehicles that should be replaced. In addition, the logs should be reviewed in conjunction with gasoline and other maintenance charges.

**WE RECOMMEND** the City Council:

- A. Ensure property records are maintained which include all pertinent information for each asset such as description, cost, acquisition date, identification number, location, and subsequent disposition. The city should also properly tag, number or otherwise identify all applicable city property and conduct annual physical inventories. In addition, the physical inventories should be reconciled to the detailed property records, and property purchases should be reconciled to property additions on a periodic basis.
- B. Ensure items purchased from SASP are used only for the benefit of the city and not converted to personal use.
- C. Require complete and accurate mileage/use logs be maintained for each city vehicle. Management should periodically review the logs for completeness and reasonableness.

**AUDITEE'S RESPONSE**

*A-C. We agree with the recommendation. Implemented.*

<b>10. City Charter</b>
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Some provisions in the city's Charter appear outdated and need to be revised to reflect current city operations and/or state law. The City of La Grange was incorporated in 1853 as a special charter city under Chapter 81, RSMo. The Charter defines the scope of authority for the city and was last amended in February 1872. Some Charter provisions which appear outdated include:

- The qualification that a citizen must be twenty-one years old in order to vote in city elections. Section 115.133, RSMo 2000, provides that a resident of the state of Missouri may vote in any election after his or her eighteenth birthday.
- The imposition of a poll tax, not to exceed a \$1 on males between the age of twenty-one and fifty. This appears to be an antiquated tax.
- The election of a City Recorder (municipal judge), City Attorney, and City Marshal. Currently, municipal court cases are heard by the Lewis County Associate Circuit Judge; the city attorney is an appointed position; and the city marshal is an honorary position with law enforcement duties performed by the police department.
- The appointment of a Street Commissioner, Assessor, and Auditor. Currently, a council member acts as the street commissioner; the County Assessor handles city assessments; and Certified Public Accountants audit the city's financial records.

- The power to require able bodied male inhabitants, between eighteen and fifty years, to work two days a year on city streets. This provision appears obsolete.
- The Charter does not provide for the office of City Administrator. This appointed position was created by ordinance in October 2001. The city administrator acts as the chief administrative assistant to the mayor and city council and is the purchasing agent, budget officer and personnel officer for the city.

Since the Charter represents the authority to govern the city and its residents, it is important that the charter is maintained in an up-to-date manner. Section 81.013, RSMo 2000, allows the charter to be amended by a majority vote of the citizens.

**WE RECOMMEND** the City Council consider amending the charter to reflect current city operations and state law.

#### **AUDITEE'S RESPONSE**

*The Council does not necessarily disagree with this recommendation, but believe it is unnecessary to make any changes.*

HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

CITY OF LA GRANGE, MISSOURI  
HISTORY, ORGANIZATION, AND  
STATISTICAL INFORMATION

The city of La Grange is located in Lewis County. The city was incorporated in 1853 as a special charter city. The population of the city in 2000 was 1000.

The city government consists of a mayor and a six-member city council board. The members are elected for two-year terms, one from each of the three wards each year. The mayor is elected for a two-year term, presides over the city council board, and votes only in the case of a tie. The Mayor, City Council, and other principal officials at April 30, 2002, were:

<u>Elected Officials</u>	<u>Term Expires</u>	<u>Compensation Paid for the Year Ended April 30, 2002</u>
Harold Ludwig, Mayor	May, 2003	\$ 1,200
Steve Griesbaum, Councilman	May, 2002	400
Sam Henderson, Councilman	May, 2003	400
Ronald Powers, Councilman	May, 2003	400
Tim Rossiter, Councilman	May, 2002	400
John Stiffey, Councilman	May, 2003	400
Elaine White, Councilwoman (1)	May, 2002	200
 Delbert Murphy, City Marshal (2)	 May, 2003	 0
<u>Other Principal Officials</u>		
Vacant, City Administrator (3)		0
Patty Spindler, City Clerk/Collector/Court Clerk (4)		25,937
Kenneth Powers, Street Supervisor		27,739
Jimmy Vaughn, Water/Sewer Supervisor		25,443
Larry Penn, Chief of Police (5)		21,990
Brad Davis, Cemetery Director		1,000
Russell Kruse, City/Prosecuting Attorney (6)		13,425

The amounts presented for the Mayor and the City Council represent annual compensation for attending meetings.

- (1) Roger Sherwood resigned in November 2001 and Elaine White was elected in a special election.
- (2) Honorary position.
- (3) Drew Bontrager was hired in June 2002 to this newly created position at an annual salary of \$40,000.
- (4) No salary for City Collector's position. The Court Clerk's salary, totaling \$469, is included in the amount above.
- (5) Replaced Mike Baker in September 2001.



(6) Receives \$90 per hour for his services. This amount also includes reimbursed expenses.

On April 30, 2002, the city employed nineteen full-time employees.

Assessed valuations and tax rates for 2001 were as follows:

ASSESSED VALUATION

Real estate	\$ 4,169,039
Personal property	<u>3,743,632</u>
Total	<u><u>\$ 7,912,671</u></u>

	<u>Rate</u>
General	\$ .49
Street	.27
Cemetery	.13

The city also has the following sales tax; the rate is per \$1 of retail sales:

	<u>Rate</u>	<u>Expiration Date</u>
General	\$ .01	None

\* \* \* \* \*